

COST *and* MANAGEMENT

THE OFFICIAL JOURNAL OF

THE CANADIAN SOCIETY OF

COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

Telephone 2 - 0700

INCORPORATED 1920

HEADQUARTERS. 601-602 MACKAY BUILDING,

66 KING STREET EAST, HAMILTON

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Vol. XVIII

APRIL, 1944

No. 4

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Subscription price to non-members, \$5 a year. Single copies 50 cents.
Members desiring 5 copies or more of a single issue may obtain them
at 25 cents each.

EDITORIAL

The Waste Paper Drive

Each time we pick up a paper during recent weeks, we read of the urgent necessity of conserving waste paper, paper board boxes, etc., in the interest of the war effort and it seems that every time we tune in on the radio we hear the same thing. Now, we haven't any quarrel with all this, and in fact, believe that the conserving of waste paper, etc., should be continued after the war is over.

It does seem strange, however, that in Ottawa, the capital of the nation, and in the very city from which these constant appeals emanate, one can see thousands of paper board and corrugated boxes lying on a city dump within sight of the parliament buildings.

Very recently, we made a trip from Belleville to Ottawa by day train which is routed through Hull. This train passes along side the dump in question and the spectacle referred to can be seen by anyone who cares to look. The comments of fellow passengers was, to say the least, anything but complimentary to those in charge of the drive to conserve waste paper.

It may be that the boxes referred to are unsuitable for the waste paper drive. We wouldn't know about this but we doubt it, and if the drive for waste paper is as urgent as we are lead to believe then it might be well to prohibit the dumping of such material on city dumps especially in Ottawa.

EDITORIAL

Recently in glancing through the Toronto "Globe" we came across an advertisement in connection with books for soldiers. The advertisement reprinted a ditty from the pages of "Time" and read something like this:

Sing a song of six pence,
A bottle full of rye,
Six and twenty ounces,
For a month's supply.
When the war is over
All the boys will sing,
Now we've finished Hitler
Where's Mackenzie King.

Now this may seem very amusing to some and it has been given wide publicity, frankly, we are not carrying the torch for the Prime Minister of Canada, but we do submit that such nonsense published in a reputable American news weekly containing derogatory references to the elected leader of this country is something far from amusing.

ACROSS THE SECRETARY'S DESK

This is only a sample of what we read and hear in connection with the rationing of liquor. The funny thing is that we never hear such things concerning the rationing of butter, sugar, meat and other commodities so essential in our daily lives and it would appear in the minds of many of our people that the obtaining of all the liquor a person desires has assumed far greater importance than that of obtaining sufficient butter and other commodities which we must have to live. It seems a sad commentary on our war effort concerning which so much has been heard, when such conditions exist. We evidently realize that lack of man power and shipments overseas mean that we must cut down on our daily necessities but not so when it comes to liquor.

We hesitate to believe that those who shout the loudest concerning liquor rationing know how much of our distillery production is used exclusively for the manufacture of alcohol for war purposes but if they do not know this, it is time they learned of it.

Across the Secretary's Desk

Since the last issue we have received a splendid letter from one of our members who recently secured his commission in the R.C.A.F. In reply to a letter from us congratulating him he told us how much he valued his membership and how interested he would be to continue to receive "Cost and Management". That is the type of letter it is a pleasure to receive because it shows that membership in our Society is really valued and it acts as an inspiration to do bigger and better things.

Since the last issue, the writer spent several days in Belleville and sat in on a director's meeting of the Bay of Quinte Chapter. While still small in numbers this "baby" chapter is going ahead and has had some very fine meetings during the season. I visited Ottawa along with Nelson Allan, Secretary of the Bay of Quinte Chapter, and listened to him give a very fine talk to the Ottawa boys. After a somewhat rocky start this season, the Ottawa Chapter appears to be right on the beam again. The last two meetings have shown excellent attendances and much more enthusiasm than was the case earlier in the season.

Another trip to the Niagara Chapter for the April meeting. This trip coincided with the Toronto Chapter Annual Dinner Dance and the Kitchener meeting and for that reason I was unable to attend the two latter functions which was my loss because from grapevine reports I hear that both the meeting at Kitchener and the Dinner Dance at the Old Mill were really something.

I continue to receive fine reports from Calgary, Edmonton and Vancouver. The latter chapter has really taken a new lease on life. It has every member on some committee or other and is really trying hard to increase its membership to a point where application for Incorporation by Private Bill early next year will be feasible. Norman Terry is the new chairman and Andy Harper the new secretary. Congratulations and good luck to these boys and if any of you fellows from the East who read this

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column travel West at any time don't fail to notify me. We have several chapters from Fort William-Port Arthur west who would like to hear you speak whenever possible.

These chaps are far from headquarters and they do like to have visits from us easterners whenever possible. We really mean this and those of you who do travel west can assist greatly in the expansion of our Society if you will but do so.

Why not let me hear from you.

R. D.

Chapter Notes

Toronto.

The March meeting of the Toronto Chapter was a pronounced success and brought out about eighty members. The speaker was Mr. Ray J. Lowe, Comptroller, F. N. Burt Inc., Buffalo, N.Y., who spoke on "Budgeting". Mr. Lowe dealt principally with Flexible Budgets and illustrated his talk with an ingenious board which showed the expenses at various levels of production. His talk was much appreciated.

The Annual Dinner Dance of the Chapter is being held on Wednesday, April 19th, at the Old Mill and gives every evidence of being bigger and better than ever.

Hamilton.

The April meeting of the chapter will be held at the Royal Connaught Hotel on Friday, April 28th. The speaker is our popular Dominion President, Mr. H. M. Hetherington, and his subject, "The Role of the Industrial and Cost Accountant in Post-War Planning".

Niagara.

Mr. Harold Bricker, a prominent member of the Hamilton Chapter, was the guest speaker at the April meeting of the chapter and his talk on "General Observations on the Allocation of Overhead" was much enjoyed by a good attendance. The discussion period was also a grand one and the meeting lived up to the many enjoyable ones held by the chapter during the current season.

Kitchener.

The largest attendance at any previous meeting of the chapter gathered at the Walper House Hotel on April 19th to hear Mr. E. J. Shoemaker, President and General Manager of the L. McBrine Co. Ltd., Kitchener, speak on "Information Management Expects from the Cost Accountant". Mr. Shoemaker gave the large attendance plenty to think about and brought a new slant on what is expected of the Cost Accountant. The closing meeting of the chapter will be held at Fergus on May 17th, and another outstanding speaker in the person of Mr. J. G. Glassco, C.A., of Toronto, will be the speaker on that occasion.

Windsor.

A new record for an attendance at an ordinary meeting of the Windsor Chapter was hung up at the March meeting when Frank E. Wood, Chief

CHAPTER NOTES

Cost Accountant, Treasury-Cost Section, Ottawa, spoke on "Termination of War Contracts". Over one hundred and thirty members and guests were present and they thoroughly enjoyed the meeting.

Another large attendance was present on April 11th, at a joint meeting of the chapter and the Detroit chapter of the N.A.C.A. The speaker on this occasion was Mr. L. W. Downie, of the Kelsey Wheel Co., of Detroit, and it was another very fine meeting.

London.

The last meeting of the London Chapter was held at the offices of Silverwood's Limited, London, and dealt with certain aspects of the accounting operations of that Company. The affair was arranged and handled by Cliff England and proved a most interesting evening.

Ottawa.

Over thirty members and guests gathered in the Tudor Room at the Chateau Laurier Hotel, Ottawa, on the occasion of the March meeting of the chapter on March 29th, to hear Mr. Nelson Allan, R.I.A., of Belleville, speak on "An Accountant's Viewpoint on Accounting for Fully Depreciated Assets". It was a splendid talk and gave rise to much discussion during the period set apart for that purpose. Our Dominion President, Mr. H. M. Hetherington, will wind up the season on April 24th, and a large attendance is expected.

CORRECTION

In the March issue of "Cost and Management", we published, by kind permission of the National Association of Cost Accountants, an article entitled "Cost Determination in Aircraft Production" by Newman L. Smith, Lockheed Aircraft Corporation, Burbank, California. Unfortunately no credit was given the N.A.C.A. for the necessary permission. This we sincerely regret and take this opportunity of making the necessary correction.

Personal Notes

Heartiest congratulations to Aleck G. Howey, Past President of the Society, Chairman of the Educational Committee of The Society of Industrial and Cost Accountants of Ontario, and 2nd Vice-President of that body, who has been promoted to the position of Treasurer with Mercury Mills Ltd., Hamilton, Ont.

Examination Dates

Forthcoming examination dates have now been fixed as follows:

Monday, May 1st	Fundamentals of Cost Accounting
Tuesday, May 2nd	Accounting I
Wednesday, May 3rd	Advanced Cost Accounting
Thursday, May 4th	Accounting II
Friday, May 5th	Industrial Organization and Management

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Post-War Parade

(Reprinted From "Cost")

Lest I am misunderstood, a prologue defining my following remarks are necessary.

I am NOT a Pessimist. I AM an Optimist. I believe that man will yet come to his senses in regard to his responsibilities toward his fellow man. I am not against Unions, trade or otherwise. I am definitely for Unions that are honest in their endeavours and who are willing to assume the responsibility above mentioned.

NOW

What is the vision of the Post-War Period? The Atlantic Charter is practically obscured in the mist on the horizon. Instead, I can see people shivering in cold due to the lack of fuel, homes and stores burning due to no fire fighting equipment manned by firemen, people trudging miles in rain and storm for lack of tram cars and busses, the "No Help Required" sign prominently displayed, then the voice of the Devil whispers in my ear "FAME CAN BE YOURS." Organize all the office workers in the one great Union, all of the thousands and thousands of men and women who according to some are merely the parasites, all those white collared workers who bear the brunt, yet who are still being accused of "Toiling not, nor Spinning". The Devil continues "Here is your opportunity to make John L. appear as a mere Babe in the Woods". "Be the Master between management and labour". On any pretext stop the wheels of industry, hold up the pay cheques so that the women and children are denied the necessities of life, stop the production orders. In other words, make "A Hell of a Mess" and then you will have POWER.

BUT

Another voice reaches me saying "DO UNTO OTHERS AS YOU WOULD HAVE THEM DO UNTO YOU", and I lift my eyes to the Heavens and cry, "Oh God, how Long in a Land of Plenty Like Ours will this Condition persist before Man to Man will Brothers be?"

YES

I am still an Optimist. I still believe and am in favour of Unions, but this I know the Atlantic Charter will still be a vision far off until greed, selfishness and avarice have been removed from the hearts of the majority of men by themselves and not by Legislation.

**WE URGENTLY NEED COPIES OF COST AND
MANAGEMENT FOR OCTOBER, 1943, AND JANU-
ARY, 1944. IF YOU CAN SPARE YOUR COPY
PLEASE MAIL IT TO THE SECRETARY AT YOUR
CONVENIENCE.**

Training, Control Make Good Office Discipline

By W. J. KEENAN

Comptroller, F. W. Woolworth Company Ltd., Toronto

(Reprinted by Kind Permission of "Business Management")

If asked to define discipline in an office, I would say it consists of training and control, with the further thought that discipline is very definitely interwoven with morale.

What is training? In my opinion it is:

1. Sufficient instruction to enable employee to intelligently do current work.
2. The establishing of sound working habits in the employee.
3. Giving the employee an understanding of relationships in the office, together with subject matter to provide for an intelligent constructive attitude, in other words, training promotes co-operation and teamwork.

One of the most important factors in training is to see that the new clerk or employee is given a clear understanding of all details of the work which he or she is expected to perform. Things which may appear obvious to either the office manager or his supervisor, may not be entirely clear to the new employee.

Sound Working Habits

In establishing sound working habits in the employee, it is first necessary that when new employees are hired, they be instructed by either the Personnel Manager, the Office Manager or his Supervisor, as to what constitutes good working habits, outlining the office rules and general duties.

In connection with office rules, it is important that these be as few as possible. Too many rules are like prohibition, they are made to be broken. They also indicate weakness and lack of self-confidence in the chief office executive.

It is necessary that employees have a sound knowledge as to their position and work and their relationship to the whole. If they do not have this knowledge, it is not possible for them to get satisfaction from their work, and as a result, they have a feeling of futility bordering on drudgery.

I would say, in this connection, that able workers should not be hired for easy jobs unless they can be advanced reasonably soon. Some people are too capable mentally to remain satisfied with, or interested in, simple work. They have interests and ambitions which are not absorbed by their tasks, and if they are kept at these simple tasks for a considerable period, they are likely to become unsatisfactory, thereby breaking down morale.

Irrespective of what our theory regarding authority may be, there are two rather obvious prerequisites necessary before a person can act upon an order or suggestion which may be given him: First, he must understand it. Second, he must be able to comply with it.

Educating the staff as to what their jobs are for—how what they do fits in with the work of others—and why it must be done, is an important

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way of making the exercising of authority much easier and less necessary. It must be realized that when the reason is given for an order, you may be taking the quickest way to make the employee understand what you wish.

Define Responsibility

In order to preserve morale and as part of the training program, it is necessary that responsibility be defined. Indefiniteness in assigning and explaining responsibilities is a common source of friction, misunderstanding and ineffective work.

One of the most frequent complaints made is that of staff wasting time. In this connection, I would say that this is generally due to poor organization. When employees have positions which permit mind-wandering, they develop into dissatisfied workers, as the free time is spent in brooding and talking over with others, real or fancied grievances. Where a staff has sufficient work to do during their working hours, wasting time is seldom indulged in by the employees.

Rules for Managers

The second part of the definition of discipline is control. In my opinion you could compare this with the control exercised by a man driving a high-strung team of horses—just a little touch on the reins that allows the team to know that the controlling authority is always there. Control is YOU as Office Manager. Therefore, let me emphasize what I believe are a few points which we, as Office Managers, should realize:

- (a) Have you sympathy for your staff?
- (b) Do you consider the rights and feelings of others?
- (c) Do you take a personal interest in your staff?
- (d) Do you control your temper?
- (e) Are you punctual?
- (f) Are you impartial?
- (g) Are you enthusiastic?
- (h) Do you inspire others to give their best at all times?

Discipline is strong where the leader has the ability to win the confidence and loyalty of his staff. A good example of this is the Eighth Army and its leader, General Montgomery. General Montgomery is certainly no "softie", and he inspired his Eighth Army to become one of the most dynamic forces in this war.

Praise and Blame

In order to maintain discipline, it requires firmness, consistency, impartial justice and self-control. It is therefore imperative that employees are not criticized or reprimanded before other members of the staff. Praise can be given in the presence and hearing of others,—reprimands, never! Both are better given in private.

It is the belief of some that it is necessary to inspire fear in order to maintain discipline. My own observation is that while fear may drive employees to action, it is usually a negative motive. It should not be used as a tool of management. As stated, employees may work hard under fear, but a much better driving-force is an inspired eagerness to do the job.

In all, the question of how good you are at bossing is not so important—as how little bossing you have to do, because your staff is trained and the work properly organized.

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Environment and Morale

On the question of morale, I feel that environment plays just as important a part in an office program as it plays in social development. No matter what the quality of the personnel or the equipment of the office, the combination of the two will produce more and better results when influenced by the best surroundings possible to create.

I would say to check on noise, lighting, seating and other matters affecting the welfare of the staff. As a matter of fact, the first point which I brought up—noise—is an important factor to be considered. All unnecessary noise should be eliminated. Always remember that human behaviour adjusts itself to the conditions and environment.

In a survey recently made in the United States as to what employees want, the following were the four leading prerequisites and these four lead the others by a considerable margin:

- (a) Job security.
- (b) Opportunity for training.
- (c) Pride in Company.
- (d) Personal help and attention from the employer.

You will note therefore, that one of the most important things that employees want is a feeling of belonging to, and being an integral part of, the organization. If they have this feeling, then you have discipline.

I agree with many other observers, that employees are happier under reasonably strict discipline where it is fairly administered. The natural habits of people tend to make them appreciate discipline.

Differential Cost Accounting

An Address Before

THE COST AND MANAGEMENT INSTITUTE

Montreal

By

PAUL KELLOGG, L.C.M.I., M.E.I.C.

President

Stevenson & Kellogg, Ltd.

March 24, 1944

These remarks will not herald the introduction of some radically new methods of cost accounting, rather they will serve as a new approach to sound thinking in cost control as a part of good business management.

It is always well to clear up definitions and to have a thorough understanding of what we are talking about. Cost accounting is literally an accounting for costs, and in this process of accounting for costs, the work is roughly of two types—cost finding and cost control. The difference between these two branches of the cost accounting business can be illustrated in many ways. Cost finding is a photograph; cost control—a motion picture. Cost finding is largely the examination of past records; cost control is accomplished by means of formulas. Cost finding is the evaluation

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of costs; cost control is the behaviour of costs. Cost finding is static; cost control is dynamic.

A differential, according to one dictionary, is "an increment which is given to a variable quantity." In mathematics a differential gives the slope of a function. A differential, therefore, in cost accounting is the rate of change of cost with respect to a selected variable. This means the determination of cost trend or direction. It is a cost accounting conception that is applicable only in the field of cost control and to that extent it is a cost accounting of live costs in a going business.

It is obvious, also, that differential cost accounting applies only to those costs which are variable.

As every cost that accrues in a going business is a potential variable, differential cost accounting rightly concerns itself with all costs, and demands a study of how each of the costs in the business behaves, from what source it arises, what causes it and what elements affect it.

I would not have you imply that the cost finding function has no value or is outmoded—past costs must be found. There are, for instance, certain enterprises, such as, public utilities, where the actual finding of the value of certain cost factors, such as, value assets and their depreciation, is one of the most important cost functions performed by the cost accountant. Again, when the government purchases munitions at a cost plus basis, the interest is largely in determining what costs have been.

On the other hand, there is a considerable misuse of cost finding and often this has led to very erroneous conclusions respecting future policy on the part of management. This misuse is, fortunately, much less than it was several years ago.

Let us see what mathematical principles underly differential cost accounting. It is, of course, obvious, that no cost accounting can be carried out without applying at least some of the laws and principles of mathematics. It is seldom, however, that the bond between cost accounting and mathematics extends beyond the simple acceptance of the necessary rules of addition, subtraction, multiplication, division and proportion. We find, however, that in the development of mathematical science and in the development of cost control there are many analogies.

The modern science of cost accounting shows an interesting development comparable with the general development of geometry. Our first contact with geometry concerned the axiom, the theorem and the proposition and concerned construction with the use of a straight edge and a compass. The figures that resulted from the manipulations of the geometer were static and immobile things which could exist anywhere in any position and in reality were just interesting pictures. This is, as you will recognize, Euclidian geometry. A thorough study of the relationship of various figures has been made and there have been many interesting and sometimes useful developments from this study. But everything that is done goes back and is related to the arbitrary rules which are the fundamentals of the science. Certain conclusions can be drawn and certain things can be done only when these rules are observed.

How closely this type of geometry parallels the procedure under cost finding, taking for example the government's determination of costs under

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the cost plus profit contract. In finding these costs there are used records of labour cost and material used and the total expenses determined from these records are assembled to produce a static picture of what was the cost of a certain thing when it was processed through the factory. That is what the government wants to know, and the axioms and theorems of Euclidian geometry are paralleled by the rules and regulations which the government sets up under which certain costs may be included and certain costs may not be included. It is not a question of costs being admissible because they are what they should be, but only whether or not a particular cost falls into a classification set down more or less arbitrarily by the government. Thus there is created a vast amount of work and a large volume of data which are important and necessary for the object in view but which contribute nothing of value to the progress of the science of cost control.

Let us now revert to geometry. Later on in our school work we find out that Descartes had a bright idea and invented what we call a pair of co-ordinates which acted as measuring sticks for those geometric figures which came within their field. Right away, dead geometry becomes live geometry. By this simple device, he was able to apply algebra to geometry. The uses for geometry immediately broadened tremendously and instead of having a means of studying only areas of various shapes, we have a means of visualizing movement. This movement can be evaluated and expressed by equations or formulas showing what happens to one of the measured values when the other one changes. Under Cartesian geometry we can speak of trends, of tangents, of slope and direction.

Cost control and differential cost accounting can be likened to this type of geometry. Under cost control, when the system is adequately set up, the controller of costs knows what should happen in the event of change in magnitude of certain basic measures of cost in relation to which the costs are computed. Furthermore, the behaviour of costs is expressed in the form of an equation which is usually a very simple one and which can be determined and related to these basic measuring devices. If we express cost in the form of an equation we can differentiate the equation, and the resulting differential will be, as in mathematics, the tangent at any point, or the direction in which costs are proceeding.

Differential cost accounting thus assists in determining the rate of change in the value of a cost which occurs with the least measurable change in the factors which make up this cost.

Having now a pretty good idea of what we are talking about, and the mathematical principles underlying it, let us go further. We have seen that we need for the proper functioning of differential cost accounting two variables which can be likened to x and y in our geometrical illustration. We must first determine what the two variables shall be and then we shall express costs in their terms so that we can produce a usable equation, which can be plotted as a curve if we wish. It is essential, therefore, that we choose the right variables in these measurements. The selection of the first variable, corresponding to the y value in geometry, is a very simple one,—obviously it is dollars. Dollars resulting from any cost must be known and the variance in the total dollars is the important thing to

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measure. The selection of the second variable is a little more difficult. Costs do vary for many reasons, and we might select any one of the variations—even, facetiously the state of the boss' health, which obviously has some effect upon day to day costs. But we have decided to determine our equation by the use of only two variables. We should confine it to two, unless we wish to go to three dimensions, which is pretty awkward and which would have no practical application even though it might be theoretically worked out. We see that there are two factors affecting cost which are of major importance as variables; one is time and the other, rate of activity, or volume of output. We could express the variation of costs in a plant in terms of time, and it is conceivable that there would be situations where operations are always at capacity or at some set rate where such an expression would be valuable and useful for control purposes. These situations are unusual however. We notice, too, that time is a very orderly variable, that a day is usually the same length and there is usually the same number of days in a week, whereas rate of activity in most enterprises varies considerably and often radically. The logical choice, therefore, is to use rate of activity as a second variable and to bring in the time factor by studying the entire cost results in predetermined sections of time, thus making time in effect a standard for control purposes. Our equations for cost, therefore, will show total dollars of cost during a standard selected period of time expressed in terms of how these costs change with varying rates of activity or volume of output during the selected time period.

Now we have our two variables selected. What kind of equations are going to result from our study of costs in relation to these variables? Again it is obvious that the equations should be as simple as possible. It is the differential in which we are to be interested, and if this differential is a constant, as it would be if our cost equation were a straight line, then we will have the ultimate in simplicity.

One decision to make is whether our costs shall be expressed as a total cost during the selected time period or as a cost per unit during that period. Consider for a moment the cost per unit, as each unit shares the total of all costs that enter into production during a given time. Unit cost would be lowest at full capacity operation and would be infinitely great with no operation. This would produce a curve which may be hyperbolic in form. The differential would be a curve of the second degree and would be quite useless in any practical or easy plane of cost control. The differential does show that the cost of the variable factors per unit increases in inverse ratio to the square of the volume. This is the direction and rate of change of cost increases.

It is much more simple to concern ourselves with total costs and to show how they vary with change in volume. In developing these cost curves, we have to apply to the reasoning processes well-known engineering principles which are applied universally in the analysis of any problem. We first break down the problem into its elements. When we apply this principle to cost accounting we look, therefore, for the elemental costs in each department of the business and find out the behaviour of each of these elemental costs. If we express these behaviours in formulas or equations of the same type, we can then summarize by sub-departments, by

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departments, and for the business as a whole and thus get an answer for any part of the business or the whole business as may be desired.

In the study of the elemental costs, as you know, we will find a type which varies directly with the volume. This we term a "variable" cost, and the total value of that cost during the time period considered is obviously the volume produced multiplied by the variable cost per unit. There is another type of cost which does not vary at all within reasonable limits of volume change. This we term a "fixed" cost, and obviously the total value of a fixed cost during the selected time period is constant. Many costs, however, are neither variable nor fixed. Some of them prove to be straight lines when they are plotted and thus can be expressed as a combination of a variable and a fixed component. Others are more complicated and present problems of simplification which are quite outside the scope of this talk.

In considering the behaviour of all these costs we need to be interested only in what happens to them within a limited range of activity rather than throughout the entire range from zero to 100%. This greatly simplifies the problem because most costs are quite regular in their behaviour pattern over reasonable changes in volume from an average operating rate. That alone makes their simplification comparatively easy, for in this simplification we can be well satisfied if the resulting equations express results of desired accuracy within these reasonable limits, even though they may be entirely out of line in the area of very low production.

We then express all of our elemental costs in terms of a common type of equation, which is

Total cost = fixed cost plus rate of activity \times variable cost. Now we can start combining costs to get a total picture. This requires an analysis of the business before it can be done properly. Most business is complicated and consists of the sale of more than one product. Of the various products produced few of them take the same manufacturing procedure. Some products skip one department and some skip another. We, therefore, must prepare a picture for the entire business which will forecast a production of the various products manufactured during the period to be considered. This forecast, broken down by kinds of products and by the necessary amount of production in each department required to produce the forecast volume, will then determine for us the volume for each department, which can be applied to the formula for that department and the total cost for operating it found very simply. Thus forecast costs of great accuracy can be determined. Standard costs and standard profits for the business are a direct outcome of this forecasting,—the standard costs being simply a forecast at a selected level which the company is willing to assume can be continued over a cyclical period. Standard costs become the basis for the determination of price policy and other basic decisions of management.

This is then the conception of costs encompassed by the term "differential cost accounting". Arising out of this conception and made possible by it are: first, the flexible budget, which is the best means yet devised for cost control within a plant; second, the required use of standard costs and standard accounting, as it is obvious that this entire conception, and

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particularly the use of flexible budgets, demands the use of standard costs; and, third, a complete understanding of what makes a business "tick" and, therefore, a better opportunity for its intelligent direction.

Operating statements prepared through the application of differential cost accounting principles are to my mind the proper type by which a person, who only occasionally comes into contact with company affairs—a director, for instance—can intelligently form opinions concerning the progress of the company and the effectiveness of its management. By no other means can he so quickly get a cross-section of company operations in each of its departments and divisions. If you do not believe this, take any operating statement prepared as it usually is, put it before an intelligent business man and start asking him questions about the operations that produced the report. See how much intelligent analysis can arise from such a questioning.

If directors can be so benefited by a properly prepared operating statement, the management itself is obviously also much better fitted to manage the affairs of the company in the best interests of the stockholders by reason of their knowledge of cause and effect both qualitatively and quantitatively.

The whole question can be summed up in our answer to the question: "What is the cost?" If we say it is a certain amount and do not specify the rate of activity which produces this particular amount, then we are guilty of uttering only partial truths. If we say the cost is a certain simple formula, then we tell the complete story. Not only can the cost be computed at any desired level of operation, but we keep our thinking straight, classifying the cost as moving and controllable, the differential of which is evident from the formula. I appeal for this type of straight thinking.

Differential cost accounting, no matter by what name it may actually be called, is sound, it is simple, and I predict that it will be the basis of cost measurement which all progressive companies will eventually adopt.

Literature Received

A Salary Payment Plan.

N.A.C.A., March 15.

A most interesting article dealing with job analysis for salaried workers. It contains features which will be of real interest to all whether your company has already developed job and merit rating plans or has yet to adopt such methods.

Termination Organization and Procedures.

N.A.C.A., April 1.

An article dealing in much detail with contract termination in the United States.

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New Members

Vancouver Chapter

- C. H. Davis, Boeing Aircraft of Canada Ltd., Vancouver.
- J. D. Sharp, National Paper Box Ltd., Vancouver.
- A. R. Harper, Terminal City Iron Works Ltd., Vancouver.
- F. H. Walton, 3781 21st Avenue W., Vancouver.
- W. C. McCalpin, I. F. Laucks Ltd., Vancouver.
- R. A. McIntyre, 2555 10th Avenue W., Vancouver.

Ottawa Chapter

- T. W. Smyth, Code Felt & Knitting Co. Ltd., Perth, Ont.
- A. G. Hyndman, The E. B. Eddy Co. Ltd., Hull, Que.
- D. R. Hutton, The E. B. Eddy Co. Ltd., Hull, Que.

Windsor Chapter

- I. S. Goldin, C.G.A., Windsor.
- J. R. McFarlane, Dominion Forge & Standard Co. Ltd., Windsor.

Toronto Chapter

- H. E. Cannon, Toronto Hydro Electric System.

Niagara Chapter.

- D. B. Jones, Canadian Carborundum Co. Ltd., Niagara Falls, Ont.

Bay of Quinte Chapter.

- D. M. Powers, R.C.A.F., Trenton, Ont.

Non-Resident.

- J. E. Hawkins, Anglo Canadian Leather Co. Ltd., Huntsville, Ont.

Statistics Can Help Costing

By J. A. REECE, B.Sc. (Econ.), A.C.W.A.

(Reprinted from *The Cost Accountant*)

When cost accounts have been checked, balanced, and reconciled with financial accounts, it is often assumed that they are "correct" in the sense that they can be used with certainty for any purpose that the business may require. A little reflection will, however, show that it may be wrong to assume this. Some examples are given below, and although these are common-place it is hoped that the argument based on them will not be without interest.

Examples

The types of error that may lie hidden in costs may be roughly classed as:—

(1) **Technical.**—Costs are built up from money rates and prices applied to the amounts of each factor of production employed. The latter may be expressed by a period of time, but are usually expressed by a weight, a number, or the like. Now the measurement of weight, volume, temperature, time and other physical quantities is subject to error. The error may be large where the quantity is estimated, or where certain types of meter are

COST AND MANAGEMENT

in use. For example, power may be metered to a group of machines and the amount used by individual machines estimated on the basis of a test. From technical data obtained in this way the power cost per unit of production may be 1s. on one machine, and 1s. 1d. for a similar unit of production on another machine. If it is known that the accuracy of estimating power used by individual machines cannot be guaranteed within 10 per cent. of the true figure, it is obvious that the costs based on the unknown true power consumption may be the reverse of those shown, and there is nothing to be argued from the apparently higher cost on the second machine. A difference of over 2½d. would, however, be conclusive.

Analogous sales and financial problems also need to be considered. Sales estimates are known to be often subject to error, even when the most careful methods of market research are used. One reason for this is that a series of suppositions generally lies between what is measured, and the action that is based on the measurements made. It will be readily appreciated that a sales quota for expensive foodstuffs based on the percentage of highly paid professional workers in each town is more liable to be wrong than a production quota based on the number and kind of each machine in a number of factories. Even when many different measurements are made, based on the result of questionnaires and direct observation, there remains a certain vagueness as to how much will have to be spent on advertising and salesmanship to achieve the quota. In these circumstances, past experience must guide in the allocation of suitable margins of error in cost calculations.

The appropriate rate of interest to apply, and when it is correct to include it in costs, are problems that have been fully discussed. Economists say that cost estimates which make a poor forecast of what will be the appropriate rate of interest over the whole life of an investment are one cause of business fluctuations. This is a costing problem that is especially relevant to hire-purchase business, and one that particularly calls for the best possible study of the probable results of errors of a given magnitude.

(2) *Statistical.*—The errors that have been discussed in the previous section arise outside the costs, though they affect their accuracy. There are other errors that exist within costing figures, even when these are arithmetically accurate.

It is natural to be less confident of an average based on a few items than of an average based on many items, and this feeling is justified if the items are in each case a fair sample of normal performance. Moreover, for an average of a given number of items, the less the difference between the items the greater will be the confidence felt in the summary of the average. The items may, for example, be the costs of manufacture of a number of similar articles in a month, and it will be assumed that they contain none of the external technical errors mentioned in the previous section. Suppose that the average costs per article on two machines are to be compared, and that the average cost on one machine is slightly higher than on another. If the individual costs vary very much and if there are not many figures available, it will be rightly judged that there are no grounds for embarking on the expense of changing over all production to the second type of machine. This action would, however, be justified if the same difference in

STATISTICS CAN HELP COSTING

average cost were based on a great number of figures that had been found to be steady for each of the machines.

A standard cost may have been calculated in the factory by means of a stop-watch and similar methods. It is realized that in practice there will be shortcomings and improvements compared with standard, and an average of the cost of individual items based on these varying results over a period will be compared with standard. Let the standard be 2.55d., and let the actual results for the period give a result of 2.75d. The latter average may have arisen from the following data:—

Cost of Item (d.)	Number of Items
2.70	13
2.75	284
2.80	15

There can be very little doubt that, so long as conditions remain the same, the average cost per item will substantially remain the same also, and a satisfactory basis for action exists. If, however, the average of 2.75d. arises from the cost of only ten items as follows:—

Cost of Item (d.)	Number of Items
2.00	2
2.60	4
2.90	3
4.40	1

it would be wrong to assume anything about the future relationship of these costs to standard. These are extreme cases, but methods depending on deviations of individual items from the average have been devised for testing the significance of intermediate cases. (It should be noted that although the second set of figures is not useful as a basis for changing policy, it will give a correct figure for reconciling cost and financial accounts for the period under review.)

Application

Some cost accountants may consider that the topics discussed are too theoretical to be of practical value. Three considerations may help to modify this view.

(1) If the methods hinted at above are borne in mind, a watch may be kept for certain types of error, and fallacious comparisons built on them may be avoided without consciously applying the complete tests, or going into refinements.

(2) Occasionally there are important consequences attaching to a small difference between two costs, and it is felt to be worth while spending considerable thought in getting the most precise answer possible. It is then important to know that methods are available for assessing what accuracy is possible, given the nature of the data.

(3) Statistical theory is already widely used elsewhere, in practical as well as in theoretical work, and is worth considering for that reason alone. A British Standards Institution specification has been issued on the subject, and statistical methods are used in reducing the amount of testing of components in one of the largest telephone manufacturing companies in the

COST AND MANAGEMENT

world. An enormous amount of statistical work has been done in Economics, and the basis of the modern theories of atoms and energy is statistical. Often in the past practical applications have arisen out of theoretical studies.

Other cost accountants will feel that although the matter is important it is not their concern, which is to work on technical and financial data provided. The wide range of subjects set at the Institute's examinations and contributed to *The Cost Accountant* show that this is not so. But it is important to remember that the Cost Accountant has not necessarily to apply the tests himself unless they arise in his own work. He is, however, to be furnished with information about the possible errors in the data, so that he may set a corresponding accuracy against his own costs derived therefrom.

Accounting in the Public Interest

THE ACCOUNTANT'S RESPONSIBILITY AND THE PUBLIC'S RESPONSIBILITY

By PHIL GLANZER

Events of the past four years have focussed attention on accountants to a degree never before experienced, and in a manner which has caused much concern among the members of the accounting profession. For half a century, accountants have been building a profession based upon the principle of independence, upon whose findings and reports full reliance may be placed.

Prior to the development of the accountancy profession, no agency existed which could be relied upon for uncolored and unbiased facts concerning the transactions, operation, and condition of business enterprises, wholly free from self-interest. Without the element of dependability, the services of the accountant are of no value. Hence, the disclosure of some notorious cases of collusive fraud which have come to light, together with certain questions raised by public regulatory bodies, cast the shadow of doubt on current auditing procedure, and might well be expected to cause consternation in the ranks of the profession.

Those who followed the discussion of cases where fraud was publicly exposed and widely commented upon in the public press, are aware that that is not the case. Accountants everywhere reiterated their confidence in the principles of accounting evolved by the profession and the technique employed in giving effect to those principles.

Only the unusual things make news. Two generations of accountants have reported the results of their investigations of all types of enterprises, involving all sorts of conditions and transactions, and yet almost no serious errors have come to light. This is, in itself, proof that the procedures employed by General and Industrial Cost Accountants are basically sound.

The remarkable thing is that instances of undetected fraud and deceit are so rare. The fact that they are so rare is a tribute to the integrity, the conscientiousness, and the thoroughness of the professional accountant, whose reputation and livelihood depend upon the uncompromising employment of those principles.

ACCOUNTING IN THE PUBLIC INTEREST

The Public's View of the Situation:

An interesting phase of recent developments in the implicit confidence which the public has had in accountant's reports as indicated by the surprise that has been manifested that fraud and deceit, even of the most cunning type, should escape detection. It reveals a trust and reliance which the profession will do its utmost to deserve.

It is altogether possible that accountancy has been "oversold". That is, a general belief has apparently developed that accounting procedures are, or should be, infallible. Medical science may have its defects; the principles of engineering may fail because of unforeseeable conditions; justice may miscarry because of malevolent human ingenuity; and even our spiritual destination may be uncertain as a result of the diversity of human understanding and belief. But, in the minds of many, accountancy seems to stand as the one science against which the machinations of the human mind should not prevail.

But when wrongdoing in business escapes detection, the public demands an explanation; and it is altogether proper that it should. The public wants to know if the accountants involved in the cases were at fault. Did they fail to follow the procedure generally recognized by the profession? Are there conditions inherent in the organization of modern accounting firms which explain the failure to achieve full disclosure?

If such was not the case, then the public wants to know if the procedures generally accepted and followed by the profession are at fault. With the utmost propriety, the investor, the creditor, and management itself asks the question: Is there any reason why the accountants' report may not be taken as a guarantee that statements contained therein are a true picture of the operating results and financial conditions of the client? If there are such reasons, what are they?

The Profession's View of the Situation:

It is not the intention at this time to answer either of these questions. It is gratifying to note that for the most part, commentators have displayed a willingness to await the determination of all the facts involved in the cases.

There are a few individuals, however, both without and within the profession, who are prone to prejudge. There is no reason for unseemly haste either in defending or in condemning those involved, or the methods they have employed. Divergence of opinion has in some instances been expressed. This is a healthy sign, indicating alert, independent, and progressive thinking. For the most part, however, there is evidence of a marked uniformity of opinion as to proper procedure, indicating that there is a body of accepted principles and rules born of experience and proved through use to be sound.

The accounting profession has long prided itself on a code of ethics equalled by few other professions. Realizing that its success rests solely on faith in its integrity and skill, it is fully prepared to take whatever steps are appropriate, and the members of the profession, as well as the public, are being fully informed of the facts and the action taken by the various Accountants' associations.

Accountancy is young and progressive. It can no more conform to stereotyped and dogmatic rules than can business which it serves. Account-

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any may be said to be a phase of applied economics. As the economic forces which direct the destinies of business become better understood, accounting procedures may be expected to be modified and amplified. The accounting profession does not claim to be perfect. It believes that its methods which have stood the test of time and experience are fundamentally sound, but if, as a result of experience and the review that is being made of current practice, it is found that its methods may be improved, the profession may be relied on to make those improvements.

It must be borne in mind that auditing procedures, as well as business methods, are constantly in a state of evolution; hence, amended procedures adopted for the future should not be viewed as necessarily casting reflection on procedures employed in the past. In social science, as in medical science, research is constantly expanding the field of knowledge and improving on what was formerly considered good practice.

There is much evidence that the public misunderstands the nature and the purpose of accountants' reports. So far the courts have, in the main, given the proper construction to such reports, but there are continued attempts to hold accountants liable as guarantors. There is entirely too great a tendency to read the accountants' report, Chinese fashion, by beginning at the end, with this important difference: The reader too often does not read beyond the signature! If he finds the name of an accounting firm attached, especially if it is a firm he knows and in which he has confidence, he is satisfied and assumes that everything is in order, and that every figure in the report may be taken at its face value. However, the report may be full of warning signals and qualifications.

As previously stated, it is still not understood that accounting is not an exact science which is able to produce a statement of exact values. The accountant's report is, in essence, nothing more than an opinion. It is, in practically all cases, a reliable opinion, but it is none the less an opinion. The accountant's training, skill, and experience enables him to interpret accurately the records and the transactions which they reflect, with rare exception. But at some point, reliance on human integrity. Experience has proved that with few exceptions the opinion of registered industrial accountants, may be relied upon in such cases, but it should be better understood that his report is, nevertheless, an opinion.

There have been a few instances in recent months where certain writers and officials, whose utterance have come to the attention of a considerable number of readers, have seen fit to make assertions bearing broad and uncomplimentary inference involving the entire accounting profession. This is but a natural result of the human tendency to jump at conclusions without being in possession of all the facts. The accounting profession believes it is worthy of the confidence reposed in it by the public and it will stoutly defend itself against unfair attempts to destroy that confidence.

Codification of Accounting Principles:

Accountants are expected to state in their certificates that their clients have kept their records and compiled their statements in accordance with accepted accounting principles. As yet, no complete official statement of accounting principles or procedure is in existence. This fact has led to considerable discussion among the members of the accounting profession

ACCOUNTING IN THE PUBLIC INTEREST

and questions on the part of the laity as to what constitutes this "bible", so to speak, which guides accountants in the practice of their profession. It has given rise to doubts on the part of some as to whether there is such a set of principles. How can any accountant say that his clients' books have been kept in accordance with "accepted accounting principles" when no one can state authoritatively what these principles are?

The casual observer may conclude from this that there are no such principles and that the task which lies before the accountants is that of laying down, through some official agency, the rules of procedure which, in the future, will guide accounting practice. There is no question that the public is entitled to know what accountants do and how they do it. However, the idea that there is no body of principles or procedures uniformly understood and followed by the profession is entirely erroneous.

Accountants understand the principles well and employ them in their practice. What is needed is not the DEVELOPMENT of accounting principles but their CODIFICATION. Change of accounting and auditing methods is not so much the need, as some observers suggest, but rather a better understanding of just what the scope of an accounting investigation is, what assurances the accountant intends to give, and what responsibilities he can reasonably be expected to assume.

It seems obvious that minimum audit procedure should be established and that it should be made known to all interested persons. Complete audits are seldom made. The cost of such audits would be prohibitive and the values questionable. In practically all cases, well-organized tests are quite as effective and as revealing as complete verifications, and the policy of testing has become an establishing practice among accountants. It is doubtful if those people who use accountants' reports fully understand this fact.

In conclusion, it should be stated that the public accountant's greatest asset is his reputation for reliability. To protect that reputation, the accountant must possess both integrity and skill. The organized profession has set entrance standards calculated to eliminate the dishonest and the unprepared applicants. As in other professions, this protective machinery does not function 100 per cent. but the extremely few instances of bad faith bear witness to its efficiency, and the accountant's own self-interest provides the incentive to keep his record untarnished.

Canada's Sixth Victory Loan

Canada's Sixth Victory Loan is upon us and we are being asked to subscribe a sum of Twelve Hundred Million Dollars, a staggering sum you say, yes, but in the words of the song, "We Did It Before and We Can Do it Again". At least we can if we all pull together.

Most of us have probably made up our minds ere this that it is not only our bounden duty but also a real privilege to subscribe to this loan to the limit of our capacity and to such, this article does not apply.

There may be some of us who feel that we have subscribed enough, that there are certain things we need which will take all the money we otherwise could have "Put into" Victory Bonds.

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Maybe also, there are those who have become more or less fed up with the war and feel that there has been far too much wastage. Yes, we know, and we've probably complained about it too in the past but wastage seems to be inseparable from war and in fact war itself is a terrible waste. If you don't believe us, ask that boy in Italy or the one who is flying a Lancaster Bomber in the R.C.A.F. They see far more waste than you do, waste of human lives, but they don't quit.

Maybe you are engaged in war work and feel that in that way you are doing your bit. Well, don't forget you are being well paid for it.

Perhaps you are one of those who feel that you are paying enough through income taxes and you shouldn't be asked or expected to pay any more. Our answer to that is that you are being asked to loan, not give your money and at interest too.

And what if I don't subscribe to this loan you ask, what will happen? George will do it, the loan will go over alright. Will it? Well, suppose quite a few thousand people thought as you do, would it go over then? And what effect would it have on you even if the loan did go over without your help?

Maybe you have a boy in the services, or maybe it's a brother, a nephew or a grandson. Maybe it's the kid next door who used to mow your lawn or the red-headed kid who used to deliver your daily paper or maybe it's the boy who used to work for you. Remember what you told him when he joined up? How proud you were and how you would never forget him. Sure you do, and you meant it, too. You still mean it in a way but things are different, you say.

Well, O.K., you don't subscribe, so what? How are you going to face that kid when he comes back, if he does? Are you going to look him straight in the eye with a feeling that, small as it was, you did your best, or are you going to have that gnawing feeling in your heart which tells you that you let him down. It isn't worth it, chum, and you know it.

That's why you will subscribe to this new loan, that's why you will subscribe early and well and that's why you will hang on to your bond when you get it. There isn't much use buying it unless you do intend to hang on to it, is there?

Sure, I know, you may have to stretch that suit out a little longer, your wife may have to cut down on the cost of that new spring suit, but, brother, it will be worth it.

You will not only be helping to defeat Hitler but you will also be handing out a real punch to Old Man Inflation and best of all, you will have a feeling of real satisfaction and when that kid we spoke of comes back you can look him in the eye with a clear conscience.

VANCOUVER CHAPTER NEWS

The Vancouver Chapter had a most successful meeting at the Georgia Hotel on Wednesday, April 12th. There was a good attendance of members and guests and following a very fine talk by Norman Terry, C.G.A., there was a really splendid discussion period. It is hoped to publish Mr. Terry's talk in the next issue of "Cost and Management".

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COST AND MANAGEMENT

Old Examination Questions

FUNDAMENTALS OF COST ACCOUNTING

APRIL 27th, 1943

6.00 to 10.00 P.M.

PROBLEM I (8 Marks)

Name four of the most important and more commonly used methods of determining rates for the distribution of productive department overhead to production.

PROBLEM II (12 Marks)

- (a) Draw up a stores ledger sheet.
(b) Enter thereon the following information and transactions concerning item PM 11, using the average cost method of valuing materials used.

- March 1. Balance on hand 400 units at \$1.50 each—\$600.
1. Ordered 250 units, purchase requisition No. 503, purchase order 806.
2. Issued stores requisition 806 No. 1075, 150 units.
3. Ordered 150 units, purchase requisition No. 504, Purchase order No. 807.
4. Received 250 units, Purchase order No. 806 at \$1.54 ea.
6. Ordered 300 units Purchase requisition No. 505, Purchase order No. 808.
7. Issued stores requisition No. 1076, 350 units.
8. Received 150 units, Purchase Order No. 807 at \$1.50 ea.
9. Issued, Stores requisition No. 1077, 200 units.
10. Received 300 units, Purchase Order No. 808, at \$1.56 ea.
11. Issued, Stores requisition No. 1078, 200 units.

PROBLEM III (20 marks)

The Moore Products Corporation manufactures a product in three processes designated as processes A, B and C. There were no opening inventories and during the month of January, 1943, the expenses of each process were as follows:—

	Process A	Process B	Process C
Direct Material	25,000	14,000
Direct Labor	16,000	18,000	6,000
Fixed Charges	1,800	4,000	2,000
Apportioned Charges	2,200	3,600	2,425

During the month 3,000 units were started in process A. These were all completed and transferred to process B. In process B all units were completed and 2,600 units were transferred to process C. In process C 2,400 were completed and transferred to finished goods. The remaining units in process were estimated to be $\frac{1}{2}$ completed.

Prepare a cost statement showing:—

- (a) The cost per unit in each process.
(b) The cost of each process.
(c) The total accumulated cost after each process.
(d) The total accumulated unit cost after each process.
(e) The value of the inventory of work in process.
(f) The cost of finished product transferred to finished goods.

OLD EXAMINATION QUESTIONS

PROBLEM IV (18 marks)

The Smellworks Manufacturing Company operates two service departments: No. 1 Power, No. 2 Stores, and three productive departments, A, B and C. Charges for the month were:—

1. Indirect Labor—productive departments	900
Rent	565
Light	340
Insurance on Plant and Equipment	395
Unallocated sundry expense—prod. depts.	200
2. Direct Labor was incurred as follows:—	
Department A	1,650
Department B	630
Department C	420
3. Service departments labor amounted to:—	
Department 1	327
Department 2	435
4. Service Departments expense amounted to:—	
Department 1	443
Department 2	325
5. Direct Material issues were:—	
Department A	2,300
Department B	1,700
Department C	1,000

The following information is available:—

Dept.	Sq. Ft. of Floor Space	No. of 200 Watt Lamps	H.P. Hrs.	Value of Macy. & Equipment
1	7,500	25	—	18,000
2	6,000	18	—	3,000
A	12,500	43	960	20,000
B	14,000	39	540	16,000
C	16,500	45	470	22,000

Required:

Prepare an expense distribution sheet showing in detail (to nearest dollar):—

- (a) The manufacturing expense apportioned to each department and the basis of distribution used.
- (b) The apportion of service department costs to productive departments.

PROBLEM V (42 marks)

On March 1, 1943, the trial balance of the Bisleigh Corporation was as follows:—

Cash on hand and in bank	\$ 5,800	
Accounts Receivable	27,740	
Stores	4,880	
Work in Process	5,400	
Finished Goods	8,700	
Plant and Machinery	37,200	
Accounts Payable		\$ 24,270
Accrued Payroll		1,600

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Reserve for Deprec. of Plant & Macy.	15,210
Reserve for bad debts	825
Capital Stock	42,000
Surplus	5,815
	<hr/>
	\$ 89,720 \$ 89,720

During the month of March the following transactions took place:—

(a) Materials purchased for stores	\$ 6,000
(b) Materials issued from stores direct	4,600
indirect	1,210
(c) Materials returned to supplier from stores	480
(d) Total payroll for month—direct	6,780
indirect	630
(e) Wages paid during month:	7,300
(f) Sundry expense incurred during month	1,890
(g) Selling & administrative exp. incurred during the month	4,650
(h) Applied selling and administrative expense was charged during the month at the rate of 20% of sales.	
(i) Accounts receivable collected	17,400
(j) Accounts payable paid	9,950
(k) Depreciation to be provided for the month on plant and machinery at the rate of 10% per annum.	
(l) Spoiled work costing \$275 was scrapped with a scrap value of	30
(m) Manufacturing expense applied to production	4,100
(n) Work in process inventory March 31st after adjustment for manufacturing expense (see note) the balance of the work has been completed and transferred to finished goods	4,745
(o) Cost of finished goods sold during the period	17,300

Sales were made at a mark-up of 30% over cost as above.

Required:

- (a) General ledger entries in journal form for each transaction above. Letter the entries to correspond to the transactions.
- (b) Manufacturing, Trading and Profit and Loss Statements for the month of March and Balance Sheet as at March 31st.

NOTE.—Under or over-applied manufacturing expense is to be adjusted in total to the manufacturing expense section on the Manufacturing Statement. No adjustment is to be made to inventories.

Post-War Planning

A Talk to Members of the Federal Institute of Accountants, Melbourne, by
Sir Herbert Gepp

(Reprinted From the Federal Accountant)

I have decided to talk about an outstanding achievement in post-war planning which has come to my notice. I do not think it is now necessary to apologize for talking of the world to come—and still to be won—for

POST-WAR PLANNING

many things have happened in the last few months that have given great urgency to the work of post-war preparedness.

This year, we have good reason to expect, will bring us much nearer to the time when we must be ready to embark on the second great adventure of this generation, the adventure of peace; the adventure of doing our joint best to bring an end, finally and irrevocably, armed conflict between the nations and to establish the rule of international law and order; the adventure of resolving the curse of poverty and distress all over the world, and of freeing humanity for its true purposes of spiritual and intellectual advancement. We cannot be ready without prayer and preparation.

It is well to apply the word "adventure" to the tasks awaiting us in the approaching peace. For in every sense it will be an adventure even greater and more difficult than that of the terrible years we are now passing through. It is, in its elements, the same journey upon which we embarked after 1918, without either prayer or preparation, and with what catastrophic results we are now well aware, and of which we are or should be ashamed. We foundered disastrously then because our preparations were so lamentably insufficient in comparison with the magnitude of the task we set ourselves. Preparations alone cannot guarantee success, because we do not know all the unknown perils which will always be part of the mere fact of living. But at least we can say that the better and more thorough our preliminary plans, the greater will be our chance of success, and conversely, that without adequate and intelligently conceived plans, failure is inevitable. That is why it is so necessary to prepare now to ensure that we will be well equipped to enter on the second stage of the world crisis, of which the war constitutes the first stage only.

In the light of these thoughts, I believe it would be appropriate for me to draw attention to an impressive example of post-war planning. This is the report on economic readjustment produced by a conference arranged by Nuffield College, attached to the University of Oxford.

In many respects this report is the best of many, mainly produced overseas, on the economic and industrial problems we will have to face when the guns are silent, and the future waits upon us. It is written of course, mainly for British conditions, but it has much of significance for Australia. It has two outstanding merits: the first lies in the high quality and thoroughness of its recommendations; the second is concerned with the circumstances under which those recommendations and findings were arrived at and produced.

Let me take the second merit first. Nuffield College was founded through the generosity and vision of Lord Nuffield. The primary purpose of its establishment was to carry out objective research into economic and social problems; but it had the special purpose of promoting collaboration in the study of those problems between those engaged in academic work and those occupied in business and public life. Thus in the solution of social problems, its founders wisely envisaged the need for blending the worldly experience of the practical man with the greater abstract and theoretical knowledge of the University economist and philosopher. In this report, which was first published in March of last year, we have a document which proves indisputably that much practical good will result

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if the idea of bringing together experience and theory is applied more often and on a wider scale in the future. The Conference and the signatories to the document evolved as a result of its labours comprised over thirty prominent people from all walks of life—business, academic, public—and of all shades of political and economic belief—socialist to individualist. I want you to take note of that latter fact. Here are well-known socialists such as Mr. G. D. H. Cole, the author of numerous works on socialism and economic planning—as well as of some excellent detective stories—subscribing to the same broad principles and proposals regarding the industrial future as Lord Melchett, the head of a great capitalist organization. Miss Joan Robinson, the famous Cambridge economist, with a leaning to the "left" signs the same document on economic reconstruction as Mr. W. H. Coates and Mr. Samuel Courtauld, industrial barons prominent in the textile and artificial silk and plastics industries respectively. The President of St. John's College, Sir Cyril Norwood and the Master of Balliol College, Dr. A. D. Lindsay "agree to agree" with other prominent figures drawn from the industrial and trading world. Such a meeting of the minds of the socialists and the capitalists, the theorists and the practical industrialists on a wide area of industrial problems must have a considerable, if not a profound, influence on the thought of the British people from Westminster and Whitehall to the workshops and factories of Manchester, Sheffield, Newcastle, Glasgow and Belfast. It proves that men of intelligence and goodwill, whatever their profession or political leanings, can get together around a table in a spirit of comradeship to tackle the solution of great national problems, and to work for the common advancement of all peoples and all sections of the nations.

One is forced to ask why this sort of undertaking could not be attempted in Australia. It is certain that if men of divergent political and industrial ideas could be brought together to thrash out a general area of agreement on basic economic propositions and principles, then much would be done towards bringing about a more comradely understanding and a better feeling between employers, management and employees. To know is to understand.

Here is a sentence from the introductory preface to the Report illustrating the significance of what I have just said:

"It will be seen from the list of names that the attendance was representative of a wide variety of attitudes and experiences, and included many, who in other capacities, have been associated with the widely divergent policies of different parties and groups. What was common to those who took part in the Conferences and have agreed to the publication of their names as giving support to the conclusions, was a belief that, in view of the urgent and difficult problems which will have to be faced in the very near future, it was well worth while to find out how far their differences need stand in the way of devising a practicable agreed policy, which could be put into force at the conclusion of the war in such a way as to ensure the maintenance of 'full employment' and thus to provide secure foundation for national prosperity and social betterment."

Time will not permit me to deal with the many important proposals

POST-WAR PLANNING

made in the Report. I would most strongly urge that you endeavour to obtain copies for yourselves and read and study the significance of the proposals which the Report makes. If you do, you will read of a detailed policy to maintain full employment and of the government machinery to give it practical effect, you will read of the place of government controls in the post-war, the relation between the State and industry and the need for a reconstructed civil service. You will read also of the judgment of the Conference on the problem of monopoly and its view of the future relationships between labour, management and capital.

The Report contains a penetrating discussion of the relations between employer and employees. It points out, very rightly, that the success of any proposals aimed to improve the workings of the economic system will be governed by the measure of collaboration which can be achieved between the different sections engaged in industry and it goes on to say "In practice, the extent to which it is reasonable to expect this co-operative spirit to manifest itself is bound to depend on the confidence felt by all sections employed in the good faith of the system under which industry is being carried on. It is unreasonable to expect this spirit to manifest itself except on a basis of free and open discussion. It is accordingly of the greatest importance that firms and associations should, to the fullest possible extent, take their employees into their confidence concerning the position, prospects and finances of their businesses and should endeavour on this footing to enlist the co-operation of the workers in increasing the efficiency and flexibility of industrial machine." Among the specific measures advanced to improve the status of the employee are the adoption of the Beveridge Plan at the earliest possible moment, the extension of Works Councils and Joint Production Committees, universal adoption of holidays with pay, greater attention to the education and training of workers for suitable jobs, extension of welfare arrangements developed during the war, including the provision of factory canteens and of factory medical services in large establishments, and great publicity about the affairs of industry. The Report makes a pregnant comment "The educated worker is no longer prepared to take it for granted that the policy of the industry he works in is not his affair, or to accept without evidence that it is being conducted in accordance with his own or the public's interest. He demands to be consulted, and he will not give of his best until that demand is met. Industry must no longer be regarded as it unhappily has been in many quarters in the past as the exclusive preserve of a limited class of capitalists."

This statement is significant because it broaches the momentous question, which will sooner or later have to be faced, of enlisting the active interest, enthusiasm and energy of all the citizens of a democracy a living vital force—a force powerful enough to withstand the ever-present threat of dictatorial forms of government, whether bureaucratic, fascist, or communist. There is an unmistakable tendency for modern society to become divided into the "we" and the "they"; not the "we" of labour and the "they" of capital, which is a division I believe may have a new interpretation and significance after the war, but the "they" who give the orders and the "we" who obey. We live in an age of large scale organization, but in accepting the apparent advantages of such organization, do we ever

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stop to reflect on its effects on the individual man and woman. John Brown, the village blacksmith, with scope to work out his own destiny, has become John Brown on the assembly line, whose destiny is decided for him by the Board of Directors and the officials of the Trades Union. In every democratic institution and not merely government, but the business unit, the association, the trade union, churches and societies, power has tended to become more and more localized in special groups or hierarchies, and the rank and file citizen has less and less influence on the decisions which decide his fate. This development is contrary to the whole idea of democratic participation. Unless corrected it will produce a society of automatons, of robots, rather than one of strong, self-reliant, self-respecting individuals.

We talk a great deal, and rightly, about the need for a sense of responsibility on the part of the individual. We are at long last beginning to realize that the price of freedom is responsibility and that liberty cannot be maintained without a highly developed and widespread conception of service and obligation. But do we appreciate sufficiently that responsibility can only be developed through practice, through the exercise of responsibility? If we neglect to devise methods to encourage responsibility, we breed its opposite—irresponsibility.

How did the English speaking peoples successfully achieve political democracy? Only, I suggest, through experiment, concession and practice. But we can have political democracy without industrial and social democracy. To achieve the latter constitutes the task of this century, a task we must set about at the earliest possible moment.

In industry, the balance and logical extension of Works Council and Factory Committees, advocated in the Nuffield Report, is one possible means by which the conception of responsibility might be furthered. At least it seems a promising route leading in the direction we must be prepared to travel. The provision of information to employees about the business in which they spend the greater part of their working lives—also recommended in the Nuffield Report—is another likely route.

This is not an attack on discipline and authority. There can be no workable democracy unless properly constituted authority is respected. But our choice is between a discipline imposed either by fear or by force and a discipline willingly and intelligently supported.

This theme of responsibility and self-government is not a new theme. But the war has given it a special urgency. We cannot afford to have a passive democracy or a frustrated democracy, that is, if we want democracy to survive the totalitarian threat, which will not cease with the winning of the war. In the words of the brilliant London journal, *The Economist*—

"Democracy in the 20th Century needs fire in its belly. It is an internal combustion engine which cannot run on one cylinder only."

And what are the accountants of Australia contributing towards a Real Live Democracy, in Australia, and what more can they contribute by thought, discussion and action?

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